

Financial consequences of the coronavirus pandemic for older people

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EXECUTIVE SUMMARY

Older people have been severely affected by the coronavirus pandemic in terms of their health and mortality, but less focus has been given to the financial impact on older adults. Using new data from the COVID-19 questionnaire of the English Longitudinal Study of Ageing (ELSA), we investigate how adults in their 50s and older have been affected financially by the pandemic.

We find that respondents who were in paid work immediately prior to the pandemic were more likely to see a negative impact on their financial situation than those in retirement. Almost a third of those in work report that their financial situation is now worse than before the pandemic, and over a third report that they have faced a fall in their household income.

While many older individuals have financial wealth that they might be able to draw on to help weather income shocks, this is not true of all. This is made clear by respondents' reports of how they have adjusted to lower incomes: some have drawn on pension saving, borrowed from banks, or borrowed from friends and family. Overall, those who report being adversely affected by the COVID-19 crisis are disproportionately those who were in a less secure position financially before the crisis, heightening concerns about the impact of the crisis on financial inequalities.

Retirees are more likely to hold risky assets (which are exposed to market fluctuations) and the average proportion of total financial wealth held in risky assets is higher for retirees than those in work. However, many older workers are also exposed to falls in asset prices through defined contribution (DC) pensions.

Going forwards, there is a risk that the financial shock of this crisis will have long-term implications – if, for example, older workers who are made unemployed struggle to return to paid work and retire earlier than planned, if individuals draw on their pensions earlier than they planned or before fund values recover, or if individuals are unable to rebuild their pension funds in the wake of poor investment performance. Policymakers will need to ensure that older individuals are supported in any employment adjustments they make, and well informed in the decisions they make regarding their pensions.

Key findings

- Nearly one in five people aged 52 and over reported that their overall financial situation was worse in June–July than before the coronavirus outbreak. Older workers have been more negatively affected than retirees: 29% of those in work immediately before the crisis reported that their financial situation was now worse, compared with 13% of retirees.
- Those reporting being adversely affected by the crisis are disproportionately those who were ‘just about getting by’ or ‘struggling financially’ before the crisis, heightening concerns about the impact of the crisis on financial inequalities.
- Among older workers, 37% reported that their household income was now lower than in February (compared with 7% of retirees). Not all older individuals have wealth to help them weather income shocks. Among those whose income had fallen, 23% had household net financial wealth of less than £500 per person.
- In terms of how older people adjusted to their income falls, most saw their spending reduced anyway due to lockdown restrictions. A significant minority reported other adjustments: one-third chose to reduce spending, 20% reduced their savings, 20% drew on savings, 5% drew on pension savings, 3% borrowed from a bank and 3% borrowed from family and friends. These other adjustments were more common among those with lower levels of net financial wealth.
- The fluctuations in stock markets have hit those with wealth held in risky assets (41% of retirees and 34% of older workers) and DC pensions (54% of older workers). Individual savings have become more important in building up funds for retirement, and shocks as the current crisis illustrate how risky this exposure can be for a significant and growing minority of older people.
- Nearly 90% of retired respondents were not at all or not very worried about their future financial situation, but among those in work, over one-third were at least somewhat worried. As would be expected, concerns are strongly related to wealth, with just over one in ten of those in the highest wealth quintile worried about their future financial situation, whereas the figure is 52% for the bottom wealth quintile.

Introduction

Much of the conversation about the impacts of the COVID-19 crisis has focused on the health effects on older people, and the economic effects on younger people. However, older people, particularly those in later working life, have also been affected by the economic turmoil resulting from the physical distancing policies that the government introduced to contain the pandemic.

In this briefing note, we examine the effects of the COVID-19 crisis on the finances of older people.¹ We start by documenting individuals' general perceptions of their financial situation, how they think that their financial situation has changed as a result of the crisis, and their expectations for the future. We then focus on current incomes, examining who has experienced income shocks, the distribution of wealth among those people, and how they report having dealt with having lower income. We then turn to examine wealth, and how wealth holdings may have been affected by recent falls in asset prices, in particular accumulated pension wealth. Throughout, we present analysis separately for those who were working before the crisis and those who were already retired, as the shocks faced by these two groups, and the financial consequences for them, are very different.

The data used in this briefing note are drawn from the new English Longitudinal Study of Ageing (ELSA) COVID-19 Substudy that was fielded in June 2020. The survey collected data from nearly 6,000 existing members of the ELSA panel survey, who have been interviewed every two years for up to the last 18 years. Combining the data from standard ELSA interviews in 2018–19 with data from the new COVID-19 questionnaire enables a detailed examination of how individuals have been affected by the crisis, and how this effect varies depending on the baseline situation, for a representative sample of the household population of England aged 52 and over. For further information on the ELSA COVID-19 Substudy, see Addario et al (2020).

General financial situation

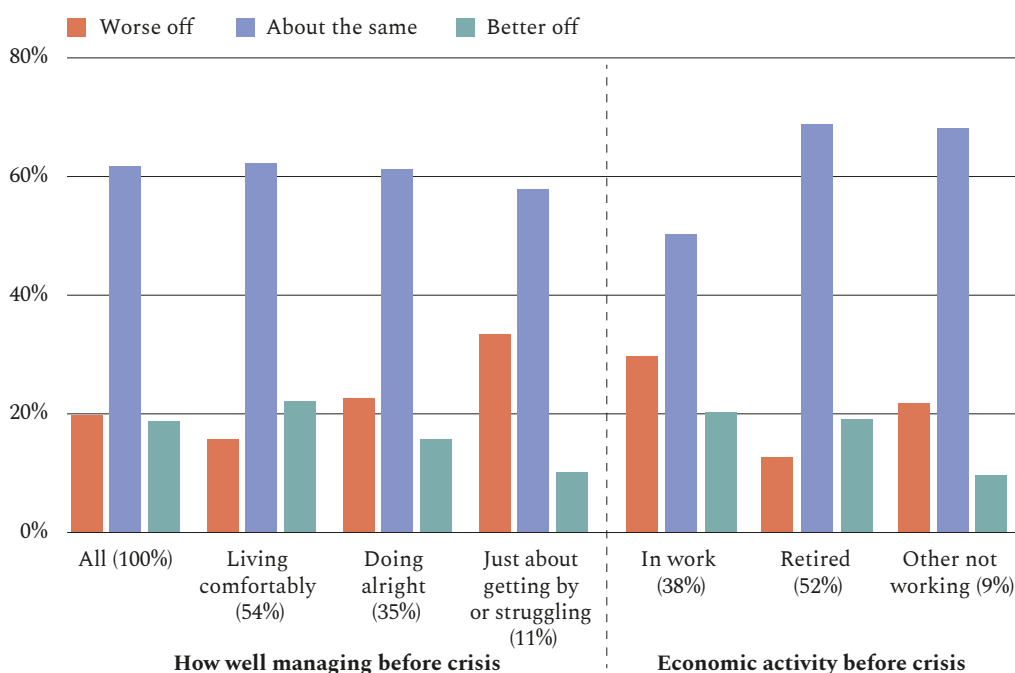
The COVID-19 pandemic, and the physical distancing policies introduced in response, have had significant effects on people's current incomes, wealth and levels of spending. The crisis has also increased uncertainty with regard to future employment prospects, incomes and asset prices. Individuals may be affected directly, as a household through shocks experienced by a partner, or as a knock-on consequence of some other dependent family member or friend being affected.

To capture all of these possible effects, we start by examining individuals' general self-reported financial situation, how this has been affected by the pandemic and expectations for the future.

Self-reported financial status

In June 2020, individuals were asked first how well they were managing financially before the coronavirus outbreak, and then how their current financial situation compares. The responses to the question about current financial status are shown in [Figure 1](#), split by how well individuals reported they were managing financially before the coronavirus outbreak. Nearly two-thirds (61%) of people thought their current financial situation was about the same as before the crisis, with the remainder almost equally split between those who thought they were now better off and those who thought they were now worse off. Examining differences by how well they were managing before the crisis, the proportion of those who thought they were now worse off is notably higher among those who were just about getting by or struggling before the crisis (33%, compared with 15% among those who were living comfortably pre-crisis). Conversely the proportion of those thinking they were better off is highest among those who were already living comfortably before the crisis. This reinforces concerns that the crisis may have a detrimental effect on financial inequalities.

Figure 1. Change in financial situation, by pre-crisis financial status and economic activity



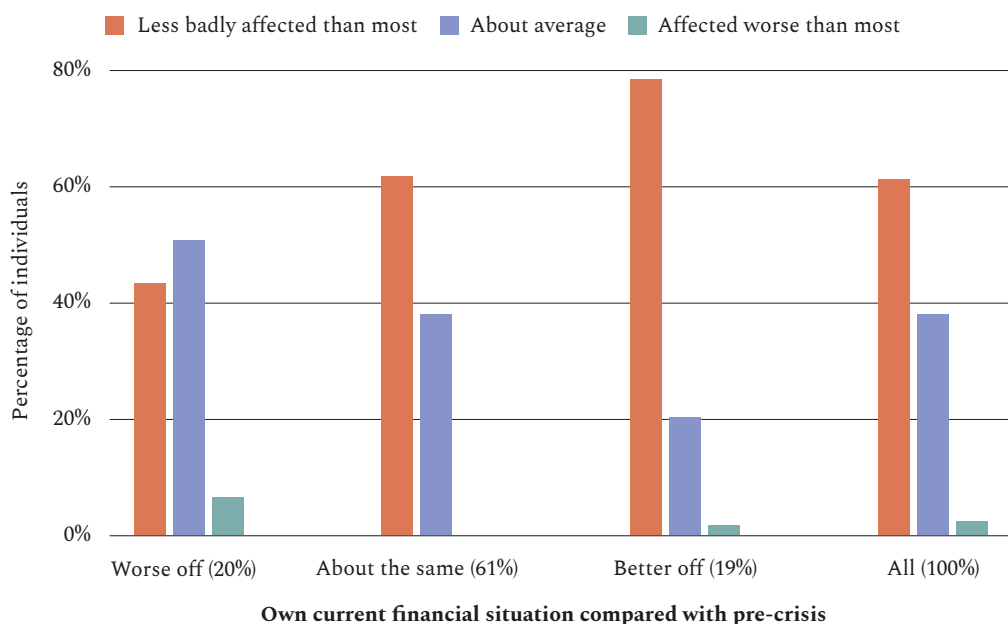
Note: The question for change in financial status is: 'How do you feel your current financial situation compares to before the coronavirus outbreak?'. The question for pre-crisis financial status is: 'In the 3 months before the coronavirus outbreak, how well were you managing financially?'. The 'Other not working' category contains those who are unemployed, permanently sick or disabled, and those looking after home or family. The responses 'don't know' and 'prefer not to say' are excluded. The number of observations for each category is 5,581, 3,002, 1,943, 636, 2,144, 2,905 and 529, respectively

The way in which people will have been affected depends particularly on whether they are working, as workers may face a shock to their earnings that retired or out-of-work individuals with fixed pension or benefit payments do not face. Therefore, in **Figure 1**, we also examine changes in financial situation by (pre-crisis) work status. As would be expected, those in paid work were more likely to be financially hit by the COVID-19 crisis than retirees. 30% of those in paid work reported being worse off, twice the figure for those who were already retired. However, some 12% of those retired (and over 20% of those not working for some other reason) also reported they were worse off, so it is not the case that everyone who is retired was financially insulated from the crisis.

Relative financial impact

The ELSA COVID-19 Substudy questionnaire also includes a question that asks respondents how they feel the change in their own financial situation compares with how everyone else in the country has been affected. Interestingly, as shown in **Figure 2**, very few people think they were hit worse than rest of the population. This is true even for the minority (20%) who feel that their current financial situation is worse than before the crisis, among whom 6% feel they have been affected worse than most, and 43% they have been less badly affected than most. This could be indicative that the older population on average believe they have been less badly hit by the COVID-19 crisis than younger individuals, or of a heightened awareness of the minority who have been particularly badly affected by the crisis, not least those who have directly suffered from the disease.

Figure 2. Current financial situation compared with everyone else in the country, by current financial situation



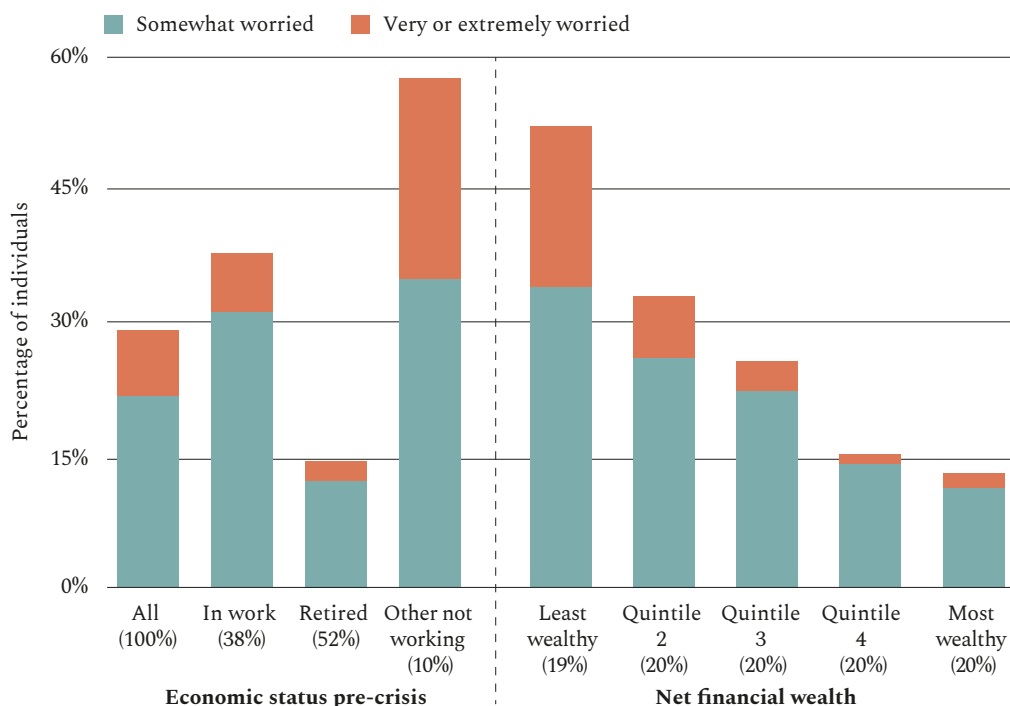
Note: The question for current relative financial situation is: 'How do you feel your own financial situation has been affected by the coronavirus outbreak compared to everyone else in the country?'. The responses 'don't know' and 'prefer not to say' are excluded. The proportion of respondents in each of the categories on the horizontal axis is shown in parentheses. The number of observations for each category is 1,111, 3,398, 1,031 and 5,540, respectively

Future expectations

The ELSA COVID-19 Substudy also asks respondents: 'How worried, if at all, are you about your future financial situation?'. The responses to this question are shown in [Figure 3](#). Nearly nine in ten (86%) of retired respondents were not at all, or not very, worried about their future financial situation. Among those who were in paid work prior to the pandemic, however, over one-third (38%) were at least somewhat worried. Those who were not working but not retired had the greatest proportion worried about their future financial situation (57%). However, we cannot say whether this is a result of the crisis or whether individuals in this group are always more concerned than average about their future financial situation.

In addition to job status, wealth is another aspect that might affect how worried people are about their future financial situation. Using wealth data from the previous ELSA survey fielded in 2018–19,² we can see that the net financial wealth quintile is strongly associated with whether the respondent is worried about their future financial situation. Just over one in ten (13%) of those in the highest wealth quintile report being worried about their future financial situation, whereas the figure is more than five in ten (52%) for the bottom wealth quintile.

Figure 3. Respondents who are at least somewhat worried about future financial situation, by pre-crisis economic activity and wealth

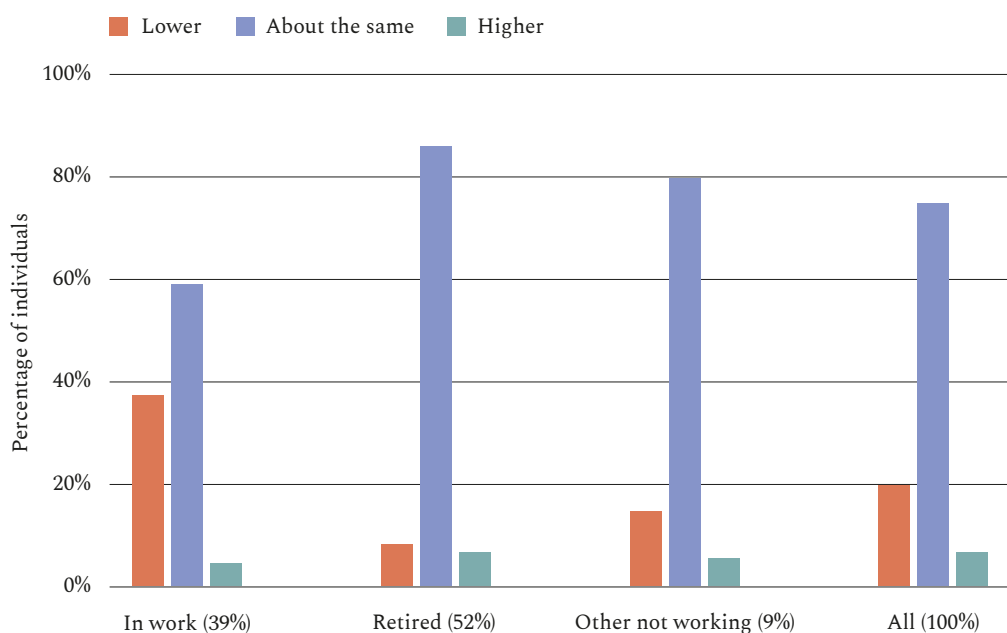


Note: The question for future financial situation is: 'How worried, if at all, are you about your future financial situation?'. The question about pre-crisis economic activity status is: 'Which of the following best describes what you were doing just before the coronavirus outbreak?'. The 'Other not working' category contains those who are unemployed, permanently sick or disabled, and those looking after home or family. The responses 'don't know' and 'prefer not to say' are excluded. The proportion of respondents in each of the categories on the horizontal axis is shown in parentheses. The number of observations for each category is 5,579, 2,144, 2,905, 530, 1,056, 1,097, 1,125, 1,099 and 1,127, respectively

Income shocks

We turn now to examine specifically shocks to household income. Across all respondents, 20% reported having a lower household income than before the coronavirus outbreak. **Figure 4** shows that these people were predominantly those who were working before the crisis: among those in work before the coronavirus outbreak, 37% said their income was now lower. Far fewer retired people (8%) reported having lower incomes as a result of the crisis. Very few report having a higher income, and this is true of all the different pre-economic states that we examine.

Figure 4. How income has been affected, by pre-crisis economic status



Note: The question asked was: 'Is your income (or the income of you and your partner) higher than, about the same as or lower than before the coronavirus outbreak that began in February?'. The responses 'don't know' and 'prefer not to say' are excluded. The number of observations for each category is 2,144, 2,895, 525 and 5,564, respectively

Can wealth help smooth income shocks?

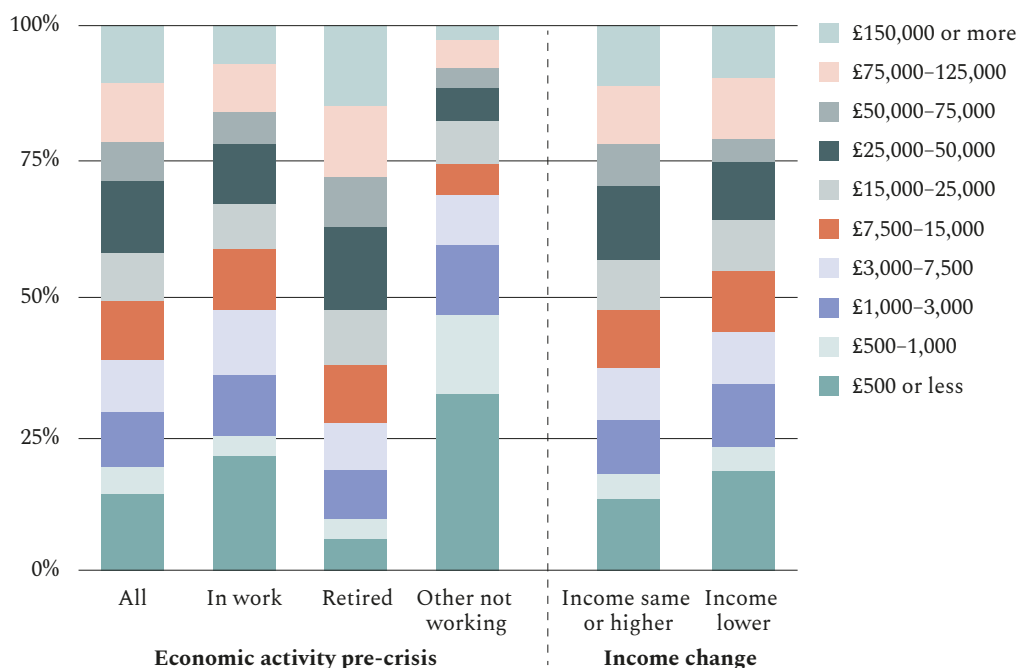
Wealth, and in particular liquid wealth in safe assets, can act as a safety net for people faced with shocks to income, reducing the immediate impact of those financial shocks on consumption and well-being. As shown in [Figure 3](#), having higher levels of financial wealth is strongly associated with individuals being less worried about their future financial situation.

While the ELSA COVID-19 Substudy questionnaire did not ask for information on wealth, an advantage of surveying individuals from the existing ELSA panel is that we already have detailed information on individuals' wealth from the 2018–19 survey. [Figure 5](#) shows the distribution of household net financial wealth.³ This includes wealth held in current and savings accounts, individual savings accounts (ISAs), premium bonds. National savings, shares, trusts, bonds and life insurance savings less credit card debt, private debt and other debts. It does not include wealth held in pensions.

We can see that 25% of those in work, and 10% of those who are retired have less than £500 in net financial wealth. These people are likely to be very vulnerable to shocks to their income, as they have little wealth they can easily draw on to maintain their living standards in the short run. However, 52% of workers and 73% of retirees have more than £7,500 in net financial wealth, meaning that majority of both groups are relatively well placed to smooth temporary income shocks.

Looking at differences in the wealth distribution by whether the respondent was in a household that had experienced a reduction in their income, we can see that those who had faced a negative income shock were more likely to have a lower level of net financial wealth. For example, among those whose household income was lower than pre-crisis, 19% had less than £0 in net financial wealth, whereas this figure was 13% among those whose income was unchanged or higher than pre-crisis.⁴

Figure 5. Distribution of household net financial wealth

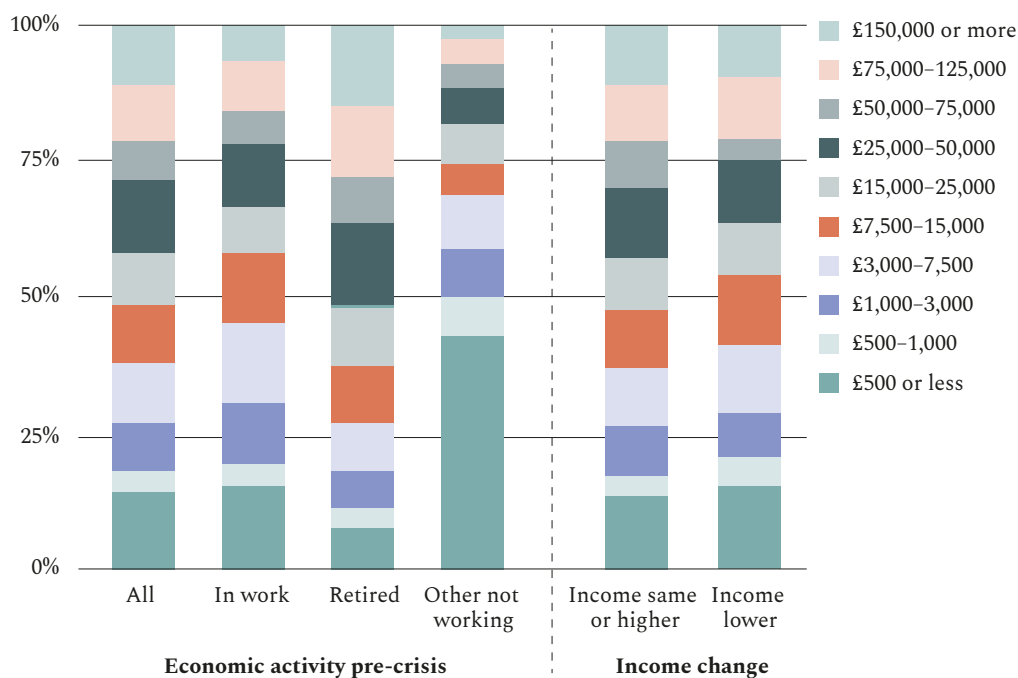


Note: The number of observations for each category is 5,509, 2,094, 2,886, 526, 4,416 and 1,075, respectively

Figure 6 shows the equivalent Figure but for the distribution of gross financial wealth terms (i.e. savings and investments, not taking into account any debts). The amounts people hold in gross terms are considerably higher than those held in net terms, as often households with financial wealth also have some debts. For example out of those who have experienced a reduction in their household income, 71% have more than £3,000 in gross financial wealth. However, 20% still hold less than £1,000 even when offsetting debts are not taken into account. For these individuals in particular, short-term income shocks may have detrimental effects on their current living standards.

The extent to which people are affected by income shocks will also depend on their housing tenure – those who own their house outright have lower housing costs than those paying mortgage or rent, and thus may be less immediately affected even by relatively large declines to their current income. Those with a mortgage may also be eligible for a mortgage repayment holiday, whereas this option is not available for renters. Among those who reported a decline in income, 15% were renters, 33% were repaying a mortgage and 51% owned outright (compared with 19%, 18% and 62% among those whose income did not fall).

Figure 6. Distribution of household gross financial wealth



Note: The number of observations for each category is 5,509, 2,094, 2,886, 526, 4,416 and 1,075, respectively

How have people adjusted to lower incomes?

The ELSA COVID-19 Substudy questionnaire asks respondents who say their household income is now lower to indicate from a list of options how they adjusted to their income being lower (with multiple options allowed). **Figure 7** shows the answers given to this question, and how responses vary by quintile of net financial wealth. A majority of people (58%) reported that their spending had reduced anyway because of restrictions, and for 27% of individuals this was the only way they reported adjusting. Around a third of individuals intentionally reduced spending, while 24% said they had saved less and 21% said they had drawn on savings. 16% said they had not responded to their income fall in any of the ways set out. While individuals could report multiple forms of response, 42% reported responding only in one way, 23% in two ways, and 19% in three or more ways.

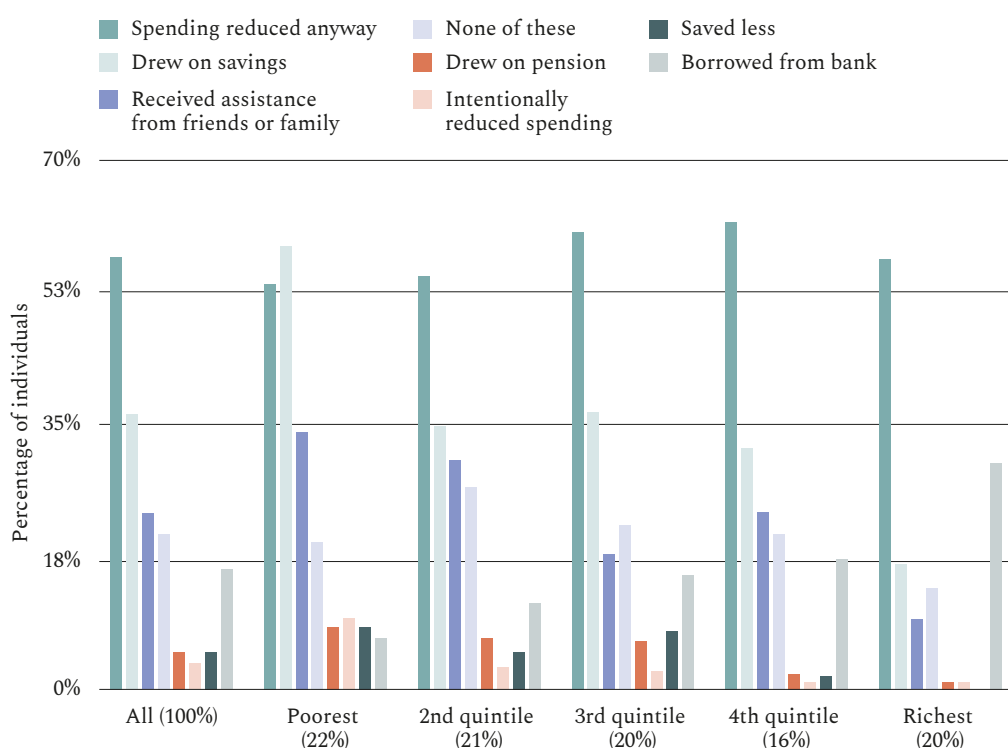
Comparing the prevalence of different adjustments to lower income across the wealth distribution, there is only limited variation in the proportion of respondents saying their spending had reduced anyway as a result of restrictions. However, the proportion of individuals reporting this as the only response varies strongly with wealth – from 16% of those in the bottom wealth quintile to 41% of those in the top wealth quintile. This is likely to be driven, at least in part, by those with higher wealth usually spending a larger proportion of their income on activities such as eating out, transport and entertainment, which have been made impossible, or at least much more difficult, by physical distancing policies. Crawford et al. (2020) have shown that lower-income households spend 55% of household spending on necessities (compared with 39% for

higher-income households), and therefore they have less scope to absorb falls in income through reductions in spending caused by government restrictions.

The proportion of individuals intentionally reducing their spending was significantly higher among those with less wealth (over 60% of those in the bottom wealth quintile, compared with only 17% of those in the top wealth quintile). Those in the bottom wealth quintile were also more likely to reduce savings, to borrow from a bank or from family or friends, than those higher up the wealth distribution. This group – those who have low wealth, have experienced a drop in income and have resorted to reducing their savings – are likely to be particularly vulnerable to any further drops in income, especially in the case of a ‘second wave’ of the pandemic. While not common, a minority of individuals (5% across everyone and 8% of those in the bottom of the wealth distribution) drew on pension saving.

Respondents were also asked whether they had taken advantage of any mortgage or rent payment holidays, council tax payment holidays, or any other debt repayment holiday. Only about 3% of respondents report taking advantage of any of these, suggesting that they were not used much by the older population.

Figure 7. Ways in which respondents have adjusted to lower income, by net financial wealth quintile

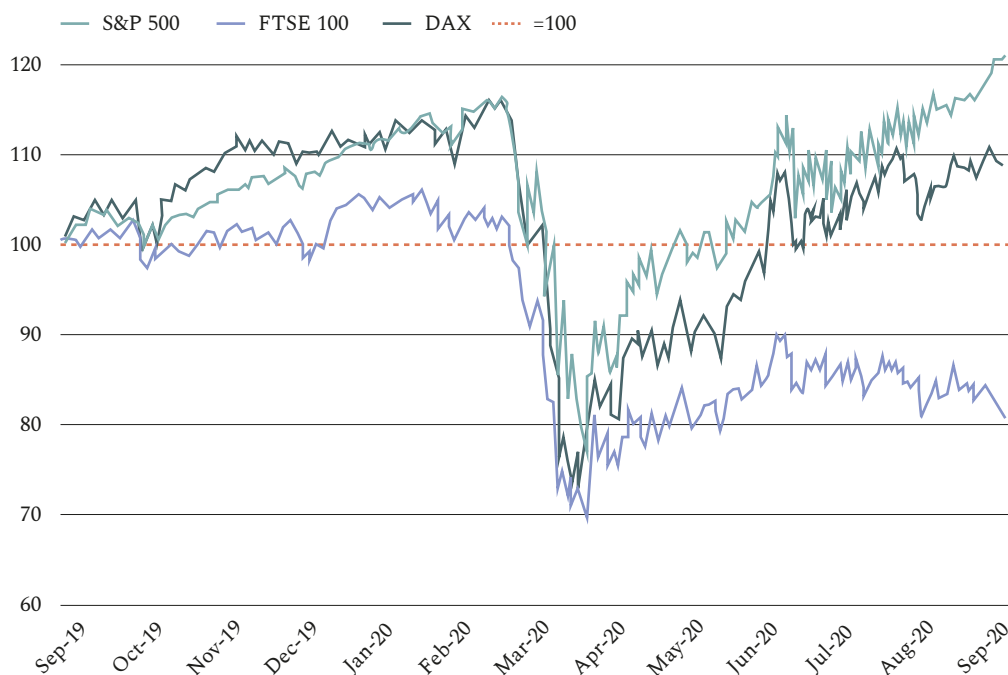


Note: Net financial wealth quintiles are calculated using ELSA 2018–19 data. The number of observations for each category is 829, 189, 173, 169, 133 and 168, respectively

Wealth

Individuals' financial situations may also have been affected by the COVID-19 crisis if they have wealth that is exposed to fluctuations in market value. Especially at the beginning of the crisis, global stock markets crashed, reducing the value of individuals' savings in equities or funds that are exposed to stock market fluctuations. **Figure 8** shows the change in three stock market indices – the UK FTSE 100, US S&P 500 and the German DAX⁵ – between September 2019 and September 2020. All three indices saw dramatic declines when lockdown measures were first introduced across the world in March and April 2020. However, by 1 September 2020, stock market recovery had in fact been strong. The S&P was past the level it was at the start of 2020, and the DAX was also back at levels seen 10 months prior. The FTSE 100 was still down nearly 20% from September 2019 levels but has also shown some recovery since March. Interest rates, which have been low since the 2008 financial crisis, also fell even further as central banks responded to the economic crisis caused by the pandemic. The Bank of England reduced the base rate from 0.75% to 0.25% and further to 0.1% in March 2020. The lower interest rates on saving, and reduced dividend income due to market fluctuations, will have reduced the asset income that individuals receive on their savings. However, an analysis of the 2018–19 ELSA data suggests that very few older individuals were receiving meaningful amounts of asset income even before the crisis.

Figure 8. Stock market indices - 12 months until 1 September 2020



Source: Yahoo Finance as at 1 September 2020

While the stock markets, especially outside of the UK, have shown strong recoveries so far, it is still interesting to consider how many individuals have wealth that is exposed to market fluctuations, and how much wealth people hold in these ‘risky’ assets. First, not all equity prices have yet recovered to their pre-crisis levels, let alone the level they would have been expected to be now in the absence of the pandemic. Second, another more persistent dip to equity prices is still possible if lockdown measures and other restrictions are reintroduced. Individuals with wealth in exposed assets may need to draw on their wealth before the stock market fully recovers, particularly if they have faced income shocks, thus crystallising the current falls in the value of their wealth even if the stock market does ultimately return to where it would have been expected to be in the absence of the pandemic.

‘Risky’ financial wealth holdings

Table 1 shows that while nearly all individuals hold some financial assets, only 36% have ‘risky’ assets (which we define as stocks and shares ISAs, shares, trusts and bonds). This refers to direct holdings of risky assets only – individuals can also be exposed to market volatility via their DC pension savings, and these are discussed in more detail in the next subsection. The mean value of assets held in this form in 2018–19 was £128,934 (among those with some risky assets), and the median among those with some risk assets was £37,000. About a third of those in work hold risky assets, and the median amount held in risky assets (among those holding any) is £10,500, or 25% of net financial wealth. Those in retirement are more exposed, with 41% holding risky assets with a median value of £42,500 or 44% of total net financial wealth. For those not in work and not retired, the median amount of holdings in risky assets is £16,000, with only 19% holding any risky assets.

Table 1. Distribution of risky assets

	All	In work	Retired	Other not working
Has any financial assets	94%	93%	97%	84%
Has risky assets	36%	34%	41%	19%
Risky assets (in £, among those with any risky assets)				
Mean	128,934	70,270	140,976	53,159
25th	6,500	2,000	8,000	1,900
Median	37,000	10,500	42,500	16,000
75th	130,000	75,000	142,000	45,000
Risky assets (as a percentage of net financial wealth, among those with any risky assets)				
Mean	44%	34%	46%	36%
25th	11%	4%	13%	3%
Median	40%	25%	44%	33%
75th	74%	61%	75%	69%

Note: Risky assets are defined as shares, trusts, bonds, and stocks and share ISAs. The number of observations for each category is 5,582, 2,145, 2,907 and 530, respectively

While only a minority of older individuals hold risky financial assets, and many hold only small amounts in this form, some hold relatively large amounts – both in absolute terms and as a proportion of their income. 25% of respondents in work who have risky assets (34% of all respondents in work) hold £75,000 or more. These assets could be invested in many different ways, but using the FTSE 100 as an example, a portfolio of FTSE 100 shares that was worth £75,000 in January 2020 would have been worth 20% or £15,000 less by August 2020. Someone holding 60% of their wealth in a portfolio of FTSE 100 shares and the rest in safe assets that have not changed in value would have seen a decline in their wealth of 12% between January and August. This illustrates that a significant minority of older people are exposed to large swings in the value of their wealth.

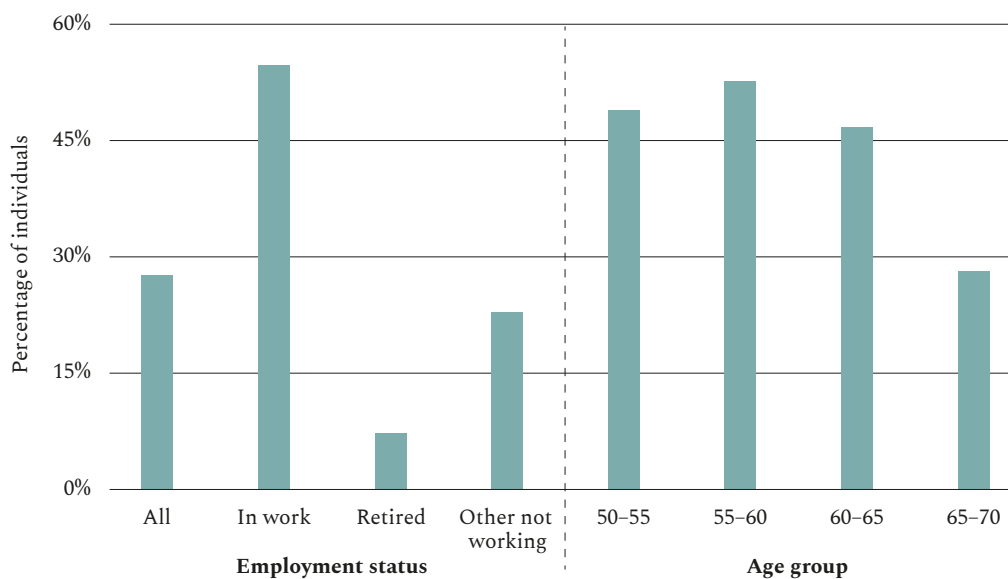
Defined contribution pensions

The proportion of individuals with DC private pensions has been increasing for many years, and particularly so during the last decade as a result of automatic enrolment into workplace pensions for private-sector employees. This means that many individuals have private pension savings that are exposed to market risk, even though they choose not to put any of their liquid wealth into risky assets.

Figure 9 shows the proportion of individuals in the COVID-19 study with a DC pension fund in 2018–19. Among everyone in the sample, 27% had a DC pension. As expected, the proportion is higher among those in paid work than among those who already report being retired or not in work. Younger respondents are also more likely to have a DC pension. Among those aged 50–55 at the time of the COVID-19 survey, 48% reported that in 2018–19 they had a DC pension, rising to 52% among those aged 55–60.

It is difficult to assess how individuals' DC pension wealth will have been affected by the crisis. DC pension funds are usually invested across different financial products, with the balance between equities and safer assets determined by individuals' risk preferences and scheme defaults. For example, a pension pot with a balanced (medium risk and medium reward) investment approach such as NEST 2040 Retirement, which has a majority of its investments in equities, dipped -15% below its level on 1 March 2020 during March, but on 1 September 2020 it was up 6.3% from the 1 March level, while a higher risk fund (NEST Higher Risk) dipped by nearly -19% and is now up 7.1%, and one entirely in short-term investment grade bonds (NEST Lower Growth) only dipped by -2% between 1 March and the height of the crisis and was up 0.6% on 1 September compared with 1 March.⁶

Figure 9. Prevalence of DC pension funds



Note: The responses 'don't know' or 'prefer not to say' are excluded. The number of observations for each category is 5,585, 2,145, 2,907, 530, 426, 1,125, 875 and 810, respectively. 'All' includes those aged 70 or over

An individual's proximity to retirement is also important, as DC investment strategies often follow a 'lifestyle approach' that moves individuals' investments into safer assets as they approach retirement in order to protect individuals from large falls in asset prices later in life. Some individuals with DC pensions may therefore have experienced a significant reduction in the value of their pension fund as a result of recent market turmoil, while others may have experienced little change if they are invested in bonds rather than equities.

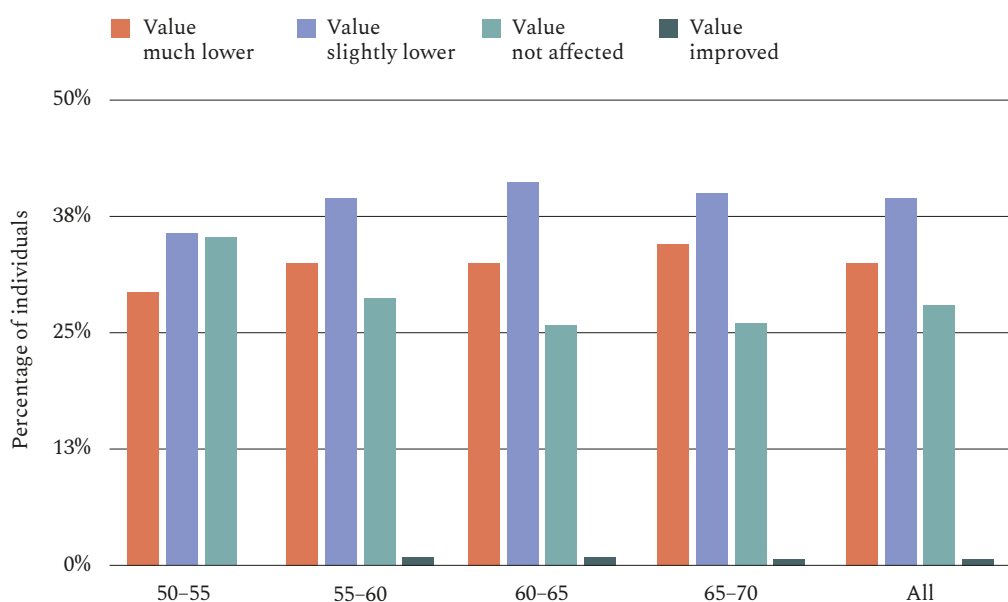
The ELSA COVID-19 Substudy questionnaire asks individuals, who report having a pension that they have not yet started drawing an income from, how they think the value of their pension has changed as a result of the COVID-19 crisis. Restricting attention to those who also had a DC pension in 2018-19 (to exclude those who have only defined benefit pensions that they are not yet claiming), just under a third believe the value of their pension is about the same as before the crisis, 39% believe the value is slightly lower and 32% believe the value is much lower.⁷

It is worth noting that these beliefs of individuals about changes in their pension value may or may not be correct. **Figure 10** illustrates how the reported changes in pension fund value vary with age. There is little evidence of the sort of 'lifestyling' pattern one might expect – that those older and closer to retirement are less invested in equities and therefore more likely to report their fund value being only slightly lower as a result of the crisis. This perhaps raises some concern that not all individuals are aware of how their pension fund may have been affected by the recent market turmoil.

The falls in pension fund values could have persistent effects on the living standards of those close to retirement, for whom there is less time for funds to recover in value

before they might have wanted to retire. Some individuals may choose to save more or save for longer (by working longer) in order to increase the value of their accumulated savings before retirement. Others might find this difficult – particularly the 32% of those who report that their fund value is lower and who have also experienced a fall in their income – or might choose to smooth the negative financial consequences of the pandemic across their lives by having lower pension income in their retirement years.

Figure 10. How the values of private pension pots have changed, by age group



Note: The responses ‘don’t know’ or ‘prefer not to say’ are excluded. The number of observations for each age group is 88, 260, 180, 90 and 642, respectively

The effect of ‘pension freedoms’

The introduction of ‘pension freedoms’ in 2015 means that individuals with accumulated DC funds no longer need to annuitise to access their savings.⁸ The market volatility associated with the pandemic has highlighted some of the advantages and disadvantages of this policy.

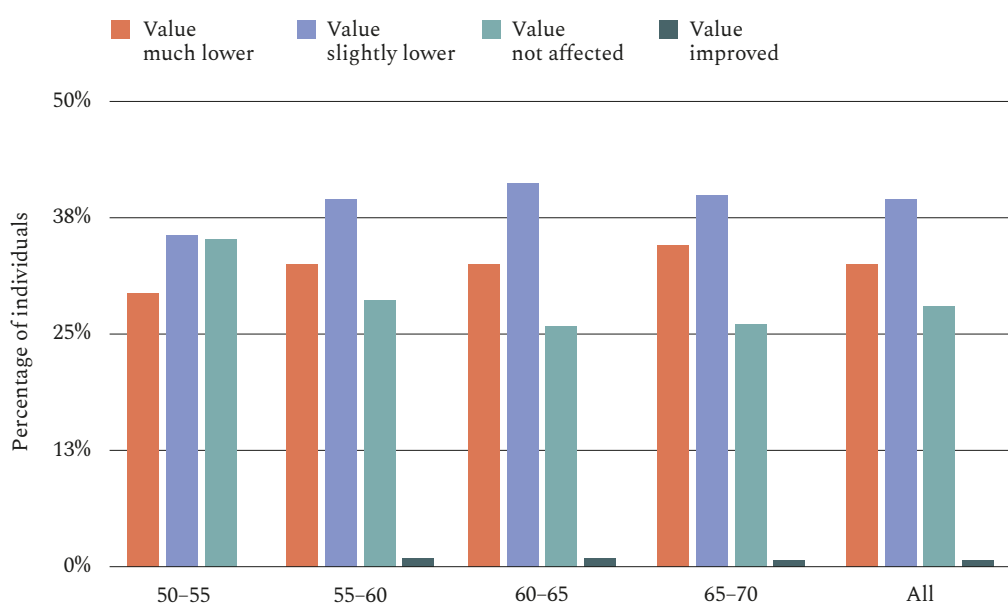
For those approaching the point when they might want to access their accumulated saving, the introduction of pension freedoms has perhaps somewhat reduced the adverse effects of falling fund values. Individuals no longer need to annuitise their pension funds in order to access an income – they can withdraw ad hoc amounts or adjustable incomes through drawdown arrangements. In the current circumstances, this means individuals can withdraw some income, while leaving the rest of their fund invested to recover in value – potentially to be used to purchase an annuity at a later date. This is preferable to facing the choice between buying an annuity now when the value of their fund has been reduced or postponing access to a pension income until fund values have recovered. The latter might not have been possible for some individuals, forcing them to realise losses in their pension funds that may only have been temporary.

However, those who have started to access their pension funds since 2015 but chose not to annuitise have potentially lost out on the insurance from investment risk that an annuity would have provided. Those who purchased an annuity will be enjoyed a fixed income, irrespective of recent market performance, while those who stayed invested and withdrew income more flexibly may have experienced a fall in their fund value.

In the ELSA COVID-19 Substudy, 9% say they have a ‘pension drawdown arrangement or a pension from which [they] are withdrawing an adjustable income’. This figure is higher than what we see in ELSA wave 9 (3.8%) or in the Family Resources Survey (3.4% in 2017), so we must be cautious about whether people understand that the question is asking about DC pension funds that are being withdrawn flexibly. However, among those who report having a flexible drawdown arrangement in place, 55% believe the value of their pension fund has not been affected by the coronavirus outbreak, around 27% think it is slightly lower and 15% think it is much lower.

Given that 42% of those with an adjustable income said they believe their pension pot is now smaller, it might make sense for them to adjust the income they are withdrawing. Crawford and Sturrock (2020) illustrate the importance of pension fund performance for the rate of decline of pension pots in drawdown, leaving people at risk of running out of money before the end of their retirement if they do not adjust drawdowns as fund value changes. However, as illustrated in **Figure 11**, among those who said their pension pot value was now lower, only 19% said they had adjusted the amount of income they were drawing (10% had reduced the income they were drawing and 9% had stopped withdrawing an income).

Figure 11. Adjustments to drawdowns from pension pot, by self-reported change in pension value



Note: Those who respond ‘don’t know’ or ‘prefer not to say’, as well as those who say the value is improved, are excluded due to sample size. The number of observations in each group is 275, 215 and 499, respectively

Conclusion

This briefing note has illustrated that the effects of the COVID-19 crisis on personal finances are not restricted to younger adults – many older working adults are also being hit hard financially. Around 37% have experienced income shocks, and while many have wealth to help them smooth these shocks, this is by no means true of all. Older adults are also more exposed to financial hits to their pension funds – being closer to retirement, there is less time for their fund values to recover before they might have wanted to start drawing on their wealth.

Going forwards, it will be important for policymakers to monitor how older individuals are faring, on two fronts in particular. First, policymakers should look at how older people are affected by unemployment when the furlough scheme ends, and how hard it is for them to find new work. This will determine how persistent the income shocks are. Second, it will be important to see how individuals are interacting with their DC pensions going forwards. There is a risk that the financial shock of this crisis will have long-term implications if individuals respond to their current financial problems by drawing on their DC pensions early, if they cannot rebuild their pension funds in the wake of poor investment performance, or if they do not understand and respond appropriately to the financial implications of taking flexible drawdown rather than annuitizing.

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Endnotes

- ¹ In another report, we examine the effects of the COVID-19 crisis on the work activity, expectations and retirement plans of older workers (Crawford and Karjalainen, 2020).
- ² Distribution of net financial wealth and why this is important in the context of financial shocks are discussed in more detail in Section 3.
- ³ Household financial wealth is equalised such that couples' wealth is divided by two.
- ⁴ When looking at whether wealthier households were less likely to experience a shock to their income, we find that there is a small gradient in the prevalence of reports of lower income across the wealth distribution; out of the bottom quintile 24% reported a lower income, compared with 19% in the top quintile.
- ⁵ The FTSE 100 is a market-capitalisation weighted index of the 100 largest companies traded on the London Stock Exchange. The S&P 500 index is a market-capitalisation weighted index of the 500 largest US publicly traded companies. The DAX is a stock index that represents 30 of the largest German companies that trade on the Frankfurt Exchange.
- ⁶ Source: www.trustnet.com/factsheets/p/klku/nest-2040-retirement-pn; <https://www.trustnet.com/factsheets/p/klkt/nest-higher-risk-pn>; <https://www.trustnet.com/factsheets/p/kllu/nest-lower-growth-pn>.
- ⁷ It should be noted that only 64% of those who had a DC pension fund in 2018–19 also reported in the COVID-19 survey having a pension that they were not getting an income from. While some individuals may have started withdrawing their funds between 2018–19 and June 2020, this is unlikely to account for all the discrepancy. It seems likely that the COVID-19 survey, with only a relatively simple question on pension holding (compared with the detailed set of questions asked by a trained interviewer in the main ELSA survey) undercaptures the true prevalence of DC pension funds, and the subsequent information on self-reported fund values should therefore be taken as indicative.
- ⁸ Annuitising means using the fund to purchase a financial product called an annuity, which provides a pre-determined income stream until the individual dies, irrespective of fund performance.

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The ELSA COVID-19 Substudy has obtained full ethical and data protection approval and is fully GDPR compliant. For further information, please contact ELSA@ucl.ac.uk

This report and other ELSA publications, including the ELSA COVID-19 Substudy methodological report, are available from www.elsa-project.ac.uk

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